

**IN THE MATTER OF THE APPLICATION REGARDING CONVERSION
OF PREMIERA BLUE CROSS AND ITS AFFILIATES**

Washington State Insurance Commissioner's Docket # G02-45

PRE-FILED RESPONSIVE TESTIMONY OF:

John Gollhofer, M.D.

April 15, 2004

CONFIDENTIAL and PROPRIETARY
NOT FOR PUBLIC DISCLOSURE

Introduction

Q. Please state your name, title, employer and business address.

A. My name is John Gollhofer, M.D. I am an obstetrician/gynecologist at the Rockwood Clinic, 105 West 8th Street, Suite 7070, in Spokane, Washington. My pre-filed direct testimony submitted on March 31, 2004 sets forth my background and qualifications.

Responsive Testimony

Q. Have you read the pre-filed direct testimony of Jeff Collins, M.D. and Bob Perna on behalf of the Washington State Medical Association?

A. Yes, I have.

Q. What is your general response to those testimonies?

A. Let me preface my remarks by saying that Dr. Collins has been a friend for many years, and he is a dedicated physician and a fine individual. I also know Mr. Perna from my former position at the Washington State Medical Association (WSMA), and consider him to be a friend. That said, I take issue with the points raised in both testimonies. In particular, I do not believe that their conclusions about Premera's relationship with and treatment of providers are fair or accurate. I also disagree with their assertions that Premera's rates are inadequate and that Premera (and other private health insurers) have an obligation to subsidize low Medicare and Medicaid reimbursement rates..

Q. Why do you disagree with their comments about Premera's relationship with and treatment of providers?

A. When I was president of WSMA, it was common for physicians to disparage insurance companies, particularly with respect to provider payments. Dr. Collins' criticisms of Premera are the same criticisms that some physicians have directed toward all health plans, regardless of whether they are for-profit or non-profit. The conversion

1 process has simply provided a new forum for airing the same complaints. I do not
2 believe these complaints are valid as to every health plan, and more specifically, I do not
3 believe they are valid as to Premera. In fact, Premera has been very proactive in seeking
4 to address physician concerns. During my time as WSMA president, Premera was the
5 only health plan to ask me how it could address the concerns of physicians and foster a
6 more productive relationship. My time as a Premera Board member has since confirmed
7 that the Board and management on an ongoing basis take the interests and concerns of
8 physicians into account.

9 **Q. Dr. Collins stated that his clinic “must wage a constant battle with the**
10 **Premera bureaucracy” and that Premera is “among the most difficult”**
11 **insurers to deal with. What is your response to these allegations?**

12 A. Dr. Collins’ statement about his clinic’s experience is the opposite of my
13 experience at the Rockwood Clinic. Our clinic’s relationship with Premera has been
14 positive, particularly compared to numerous other health plans we do business with. For
15 example, the billing process with other insurance companies can be onerous. We have to
16 resubmit and haggle over an unduly large portion of our claims, many of which are
17 ultimately denied. Premera, on the other hand, works hard to meet its commitments and
18 solve problems to the mutual benefit of both parties.

19 At the same time, Premera recognizes the need for both health insurers and
20 providers to work together more efficiently. The company was a founding member of the
21 Washington Healthcare Forum, which includes representation from health plans,
22 hospitals, physician groups, WSMA and the Washington State Hospital Association. The
23 Forum exists to improve the way its members deliver healthcare and healthcare coverage
24 to Washington consumers. And Premera representatives have been active participants in

1 Forum initiatives. The Forum's Administrative Simplification Group has recommended
2 a series of measures to increase efficiency, many of which have been widely adopted.
3 The pre-filed direct testimony of Brian Ancell, Premera's Executive Vice President of
4 Health Care Services and Strategic Development, discusses these initiatives in more
5 detail.

6 Dr. Collins' statements are also inconsistent with the feedback provided about
7 Premera from physicians across the state. Most physicians agree that Premera is a good
8 business partner, as evidenced by the annual survey of physician satisfaction, which is
9 conducted for the company by an independent firm. In fact, in the most recent survey,
10 96% of physicians rated Premera "as good as" or "better than" other health plans they
11 contract with. 75% of physicians rated Premera "better than" other health plans they
12 contract with, and overall physician satisfaction was 7.7 out of 10 points.

13 **Q. The WSMA witnesses make a number of assertions about the level of**
14 **Premera's reimbursement rates. What is your response?**

15 A. In his testimony, Dr. Collins claims that "Premera refuses to negotiate our clinic's
16 contract," and that Premera's rates are inadequate. In fact, Premera's standard schedule
17 is well above Medicare's fee schedule, and in line with the fees paid by other health
18 plans. The real problem is that health plans like Premera are expected to somehow
19 compensate for low government reimbursements for Medicare and Medicaid patients.
20 Unfortunately, health plans can't solve the problem of low payment rates under
21 government programs. What WSMA ignores is the fact that health plans must balance
22 provider reimbursements against the need to provide affordable coverage for employers
23 and individuals. To the extent that provider fee schedules are increased to offset low
24

1 reimbursement under Medicare and Medicaid, that cost is borne by the commercial
2 insurance buying public.

3 There is also a lot of speculation in Dr. Collins' testimony about how Premera
4 will behave if it becomes a for-profit entity. In particular, he expresses concern that
5 provider payments will be reduced. I don't believe the conversion will affect physician
6 reimbursement one way or the other. Provider payments are determined by market
7 forces, such as what employers, other groups, and individuals are willing to pay for
8 health care coverage, and by contract negotiations with Premera and other insurers. The
9 outcome of those negotiations has nothing to do with whether the health plan is for-profit
10 or non-profit.

11 Physicians who habitually complain that they are not paid enough also tend to
12 complain that the cost of health insurance is too high. But if we want to ease the pressure
13 on premiums, as physicians we have to provide more cost-effective care, just as insurers
14 need to provide more efficient administration on the financing side.

15 Physicians need a strong insurance market as much as insurers need physicians.
16 As I explained in more detail in my pre-filed direct testimony, physician efforts to create
17 their own financing systems in Washington have generally failed. Insurance companies
18 provide essential expertise and serve a vital function in the healthcare financing system.
19 We need solid companies like Premera that can be relied upon to keep the finance side of
20 the system running smoothly.

21 The conversion will help Premera remain a strong player in Washington well into
22 the future. At present, the company's sources of capital are extremely limited. As a for-
23 profit health plan, the company would be able to use equity capital in a variety of ways
24

**PRE-FILED RESPONSIVE TESTIMONY OF:
JOHN GOLLHOFFER, M.D.**

Page 5

1 that benefit members, providers, and employers. For example, I chair the Quality
2 Committee of Premera's Board of Directors. That Committee has oversight of Premera's
3 care facilitation programs, which include disease management and case management for
4 our most chronically ill members. These programs make a profound, positive difference
5 in the lives of our members and we need to continue to develop and expand them. In
6 addition, the company will need to make on-going investments in information systems,
7 which are vital to improving administrative efficiency. The proposed conversion will help
8 provide the capital the company needs to make those investments.

9 As a former President of the Washington State Medical Association, and now, as
10 a director of Premera, and more importantly, as an obstetrician for 26 years, I am keenly
11 aware of the issues facing the healthcare system. But the solution doesn't lie in depriving
12 one of the innovative and respected insurers in our markets of adequate funds to grow
13 and invest in improved services and greater efficiency. The conversion should be
14 allowed to proceed.

15 **Q: Does this conclude your testimony?**

16 **A:** Yes, it does.
17
18
19
20
21
22
23
24

VERIFICATION

I, JOHN GOLLHOFFER, M.D., declare under penalty of perjury of the laws of the State of Washington that the foregoing answers are true and correct.

Dated this ____ day of April, 2004, at Spokane, Washington.

JOHN GOLLHOFFER, M.D.